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FISCAL IMPACT STATEMENT

LS 7045

BILL NUMBER: HB 1188

NOTE PREPARED: Jan 21, 2004

BILL AMENDED: Jan 20, 2004

SUBJECT: Pull Tabs.

FIRST AUTHOR: Rep. Reske

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

**FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill authorizes the sale of pari-mutuel pull tabs at race tracks and satellite facilities in Fort Wayne and Indianapolis. The bill imposes a Wagering Tax of 31% and provides for tax distributions within Madison County and Shelby County. The bill requires permit holders to execute financial agreements with the respective cities in order to operate a satellite facility with pull tabs in Fort Wayne and Indianapolis. The bill also provides funding to horsemen with a Promotion Fee charged to the permit holders and provides for revenue sharing. The bill establishes the Minority and Women Business Participation Fund consisting of fees and civil penalties imposed on riverboats and pull tab operators. The bill makes other changes concerning race tracks and satellite facilities. The bill also requires the Department of Workforce Development to establish a program to certify a state educational institution's internship program if the program meets certain requirements. The bill appropriates \$2,000,000 of the pari-mutuel pull tab taxes paid to the state General Fund to the Department of Workforce Development for the administration of the certified internship program.

Effective Date: Upon passage; July 1, 2004.

Explanation of State Expenditures: (Revised) *Indiana Gaming Commission (IGC)*: The bill requires the IGC to regulate and administer pari-mutuel pull tab operations. The IGC would incur additional administrative expenses as a result. However, the bill requires that the holder of a pull tab license or supplier's license bear the cost of any investigation by the IGC relating to the licensee. Also, the bill allows the IGC to impose an administrative fee on race track or satellite facility permit holders offering pull tab games in an amount that allows the IGC to recover the costs of administering pari-mutuel pull tabs.

Certified Internship Programs: The certification of the internship programs could increase expenditures for the Department of Workforce Development (DWD) contingent on the number of existing and new internship

programs at state educational institutions that could potentially be certified. The bill appropriates \$2.0 M in pari-mutuel pull tab revenue for the cost of administration of the certified internship programs. The appropriation is for the period beginning July 1, 2004, and ending June 30, 2006. However, the fiscal impact of pull tabs may not begin until FY 2006 assuming an 18-month start-up time. The December 3, 2003, state staffing table indicates that the DWD has 109 vacant full-time positions.

The impact on state educational institutions to create and operate the internship programs would be covered by student tuition and state appropriations for higher education. The internship would be funded as a course offered by the institution.

Purchasing Goals: The bill establishes minority and women's business purchasing goals for pari-mutuel permit holders who sell pari-mutuel pull tabs. It places responsibility for enforcement of these requirements under the IGC. Currently, the IGC administers similar requirements for riverboats. The bill also establishes the Minority and Women Business Participation Fund to be administered by the IGC. Under the bill, the Fund contains fines for violations of the minority and women business purchasing requirements and an annual fee of \$10,000 imposed on each riverboat and each racetrack or satellite facility selling pull tabs. The Department of Administration may use fee money in the Fund to hire employees to administer the purchasing goals program. Otherwise, the money in the Fund is to be used to assist women and minority business enterprises. Expenses of administering the Fund must be paid from money in the Fund. The bill provides that money in the Fund is annually appropriated for these purposes.

Withholding on Pull Tab Winnings: The Department of State Revenue (DOR) would incur some administrative expenses relating to withholding requirements for pari-mutuel pull tab winnings. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: (Revised) *Pari-mutuel Pull Tabs:* The bill authorizes the sale of pari-mutuel pull tabs at Hoosier Park, Indiana Downs, and satellite facilities in Indianapolis and Ft. Wayne. The bill limits the number of electronic pull tab terminals or devices that may be installed to 1000 at each horse racetrack; and 1,500 at each satellite facility. (The bill limits satellite facilities in addition to those in Indianapolis and Ft. Wayne to those currently operating in Merrillville and Evansville; a facility due to open in 2004 in Clarksville; and any others applied for before April 1, 2005.) The bill imposes a Wagering Tax and a Horse Racing Promotion Fee on pull tab adjusted gross (wagering) receipts. It is estimated that the Wagering Tax imposed at the four facilities could potentially generate a total of \$62.0 M to \$100.0 M annually. It is also estimated that the Promotion Fee from the four facilities could potentially generate a total of \$28.0 M to \$45.0 M annually. Assuming 18 months for startup, the first full-year of tax revenue could potentially be FY 2006.

Caveats: The fiscal estimates are not adjusted to account for the potential negative effect that riverboat gaming operations may have on wagering at pari-mutuel pull tab facilities located in central Indiana and Ft. Wayne. Thus, actual Wagering Tax revenue could potentially be less than estimated to the extent that these facilities share their markets with riverboat casinos. In addition, the fiscal estimates do not account for potential decline in Admission and Wagering Tax revenue at the riverboat casinos due to the pari-mutuel pull tab operations in central Indiana and Ft. Wayne. These potential competitive impacts on the fiscal outcomes are indeterminable.

Wagering Tax: The bill imposes a Wagering Tax on pari-mutuel permit holders selling pull tabs at racetracks or satellite facilities. The tax is 31% of the annual adjusted gross receipts (AGR) on pull tab sales by each permit holder. AGR from the four facilities is estimated to range from \$200 M to \$323 M. These estimated AGR totals would generate about \$62 M to \$100 M in Wagering Tax revenue. Of this total, \$56.7 M to \$89.6 M would be allocated to the state. The first 4% of this total is to be distributed to the Clean Water Indiana

Fund. After the Clean Water distribution, 50% of the remainder is distributed to the state General Fund, and 50% is to be used for local revenue sharing. Once all four pull tab facilities are operating, the distribution to the Clean Water Indiana Fund is estimated at about \$2.3 M to \$3.6 M annually. The state General Fund distribution is estimated to total about \$27.2 M to \$43.0 M annually.

Horse Racing Promotion Fee: In addition to the Wagering Tax, the bill imposes a Horse Racing Promotion Fee of 15% on pull tab AGR. Revenue from the Promotion Fee would be distributed to the Indiana Horse Racing Commission (IHRC) and would replace, dollar-for-dollar, the Riverboat Admission Tax revenue currently distributed to the IHRC. The bill requires the Admission Tax revenue replaced by the Promotion Fee to be distributed to the state General Fund. The replaced Admission Tax revenue to the state General Fund could potentially total \$27.2 M once all four pull tab facilities are operating. The bill requires the IHRC to distribute 81% of the Promotion Fee revenue to purses and the horsemen's associations, and 19% to the breed development funds. The total to purses and horsemen's association would be distributed as follows: (1) 45% for thoroughbred purposes; (2) 45% for standardbred purposes; and 10% for quarterhorse purposes. The total to the breed development funds would be distributed as follows: (1) 45% to thoroughbred breed development; (2) 45% to standardbred breed development; and (3) 10% to quarterhorse breed development.

Annual Supplemental Fee: The bill requires the Horse Racing Commission to impose an annual fee of \$250,000 on each pari-mutuel permit holder. The bill requires 50% of the annual revenue from the fee to be used for training facilities and capital improvements, including stall improvements. The bill requires the remaining 50% in fee revenue to be used to promote live racing at county and 4-H fairgrounds.

License Fees: The bill provides for a pari-mutuel pull tab license and a pari-mutuel pull tabs supplier's license. The initial pull tab license would be effective for 5 years. The annual renewal fee would be determined by the Indiana Gaming Commission. The annual fee for a supplier's license would be \$5,000. The bill requires a person to obtain a supplier's license to furnish pari-mutuel pull tab terminals or devices in Indiana. The license fee revenue will be minimal as there will be only two pull tabs licensees and the number of suppliers necessary to provide 4,500 pull tab terminals to four facilities is minimal.

Existing Pari-Mutuel Admission Tax: Revenue from the existing \$0.20 Pari-mutuel Admissions Tax could potentially increase if pari-mutuel pull tab sales serve to increase paid attendance. Currently, admission is charged at Hoosier Park and Indiana Downs. Under current statute, 50% of the tax is distributed to the state General Fund. The impact from Hoosier Park could potentially total \$52,000 to \$139,000 annually, with 50% (\$26,000 to \$69,500) being distributed to the state General Fund. The potential impact from Indiana Downs is currently indeterminable.

Fiscal Impact Details: The fiscal impact is based on a range of estimates of the number of patrons purchasing pull tabs at potential facilities. The estimates are based on patron growth rates observed at Iowa racing venues after the installation of slot machines in 1995. Reported and imputed patron totals for existing facilities are utilized to develop estimates for operations at Hoosier Park, and satellite facilities in Indianapolis and Ft. Wayne. Patronage in Indianapolis is adjusted to account for the impact of tourism. The Hoosier Park estimate is scaled down to derive an estimate for operations at Indiana Downs based on projections by gaming industry analysts. It is assumed that the AGR per patron equals \$65 to derive AGR totals for the locations.

Withholding on Pull Tab Winnings: The bill requires permit holders selling pari-mutuel pull tabs to withhold and remit to the Department of State Revenue Adjusted Gross Income (AGI) Tax on pull tab winnings of \$1,200 or more. The bill requires withholding even if federal tax withholding is not required. The bill also requires payment of withholdings on a next (business) day basis. Under current statute, the same withholding requirement applies to riverboat owners for certain winnings. This requirement could potentially generate

AGI Tax revenue that would otherwise not be collected from nonresidents gambling at Indiana pari-mutuel pull tab facilities. However, the precise impact of this requirement is indeterminable at this time. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

Penalties: The bill makes it a Class A misdemeanor for a person to knowingly or intentionally aid, induce, or cause a person less than 21 years of age and who is not an employee of a riverboat to enter or attempt to enter a riverboat. It also makes it a Class A misdemeanor for a person who is less than 21 years of age and who is not an employee of a riverboat to knowingly or intentionally enter or attempt to enter a riverboat.

If additional court cases occur and fines are collected, revenue to both the Common School Fund and the state General Fund would increase. The maximum fine for a Class A misdemeanor is \$5,000. Criminal fines are deposited in the Common School Fund. If the case is filed in a circuit, superior, or county court, 70% of the \$120 court fee that is assessed and collected when a guilty verdict is entered would be deposited in the state General Fund. If the case is filed in a city or town court, 55% of the fee would be deposited in the state General Fund.

Explanation of Local Expenditures: *Penalties:* A Class A misdemeanor is punishable by up to one year in jail. The average daily cost to incarcerate a prisoner in a county jail is approximately \$44.

Explanation of Local Revenues: (Revised) *Pari-Mutuel Pull Tabs:* The bill authorizes the sale of pari-mutuel pull tabs at Hoosier Park, Indiana Downs, and satellite facilities in Indianapolis and Ft. Wayne. The bill limits the number of electronic pull tab terminals or devices that may be installed to 1000 at each horse racetrack; and 1,500 at each satellite facility. The bill also imposes a flat rate Wagering Tax on pull tab receipts. Estimated revenue from the Wagering Tax imposed at the four facilities could potentially total \$62.0 M to \$100.0 M annually. Assuming at least 18 to 24 months for startup, the first full year of tax revenue could potentially be FY 2007. Under the bill, 30% of the Wagering Tax revenue generated at Hoosier Park is distributed to local units in Madison County; and 30% of the Wagering Tax revenue generated at Indiana Downs is distributed to local units in Shelby County. The estimated local distribution could potentially total \$3.7 M to \$7.4 M annually in Madison County and \$1.5 M to \$3.0 M in Shelby County. The percentage distribution shares to the local units in each county are presented in the two tables below.

Distribution Shares for Madison County Local Units

Recipient	% Distribution
Madison County Economic Development Council	35%
Anderson	15%
Madison County School Corporations (divided on a pro rata basis according to enrollment)	20%
Madison County Capital Projects Fund	15%
Madison County Cities & Towns excluding Anderson (divided on a per capita basis)	15%

Distribution Shares for Shelby County Local Units

Recipient	Distribution
Shelby County	40%
Shelbyville	40%
Shelby County School Corporations (divided on a pro rata basis according to enrollment)	20%

Incentive Agreements: The bill requires the racetrack permit holders to enter into an incentive agreement with the mayor of Indianapolis or of Ft. Wayne, respectively, to obtain a pull tabs license for the satellite facilities in each of those cities.

The incentive agreement entered into by the city of Indianapolis must allocate: (1) at least 20% of the money received to the Marion County Housing Trust Fund; and (2) 20% of the money received to Marion County school corporations for capital projects, to be divided on a pro rata basis according to school corporation ADM. The incentive agreement entered into by the city of Ft. Wayne must allocate money received as follows: (1) 50% to be divided on a per capita basis between Ft. Wayne and Allen County; and (2) 50% to the Allen County Capital Improvement Board.

Local Revenue Sharing: Under the bill, the first 4% of Wagering Tax to the state is allocated to the Clean Water Indiana Fund. From the remainder after this distribution, 50% is to be distributed on a per capita basis to counties not containing a riverboat casino or a satellite facility selling pari-mutuel pull tabs. The bill requires each county's total distribution to be divided on a per capita basis between the county, and the cities and towns within the county. Once all four pull tab facilities are operating, the local revenue sharing distribution is estimated to total about \$27.2 M to \$43.0 M annually

Existing Pari-Mutuel Admission Tax: Revenue from the existing \$0.20 Pari-mutuel Admissions Tax could potentially increase if pari-mutuel pull tab sales serve to increase paid attendance. Currently, admission is charged at Hoosier Park and Indiana Downs. Under current statute, 50% of the tax is distributed in equal shares to the city and county in which the race track is located. The impact from Hoosier Park could potentially total \$52,000 to \$139,000 annually, with 50% (\$26,000 to \$69,500) being distributed in equal shares to Anderson and Madison County. The potential impact from Indiana Downs is currently indeterminable.

Penalties: If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from the following sources: (1) The county general fund would receive 27% of the \$120 court fee that is assessed in a court of record. Cities and towns maintaining a law enforcement agency that prosecutes at least 50% of its ordinance violations in a court of record may receive 3% of court fees. If the case is filed in a city or town court, 20% of the court fee would be deposited in the county general fund and 25% would be deposited in the city or town general fund. (2) A \$3 fee would be assessed and, if collected, would be deposited into the county law enforcement continuing education fund. (3) A \$2 jury fee is assessed and, if collected, would be deposited into the county user fee fund to supplement the compensation of jury members.

State Agencies Affected: Indiana Gaming Commission, Indiana Horse Racing Commission, State Department of Revenue, State Educational Institutions, Department of Workforce Development, Department of Education.

Local Agencies Affected: Indianapolis, Ft. Wayne, and local units in Madison County and Shelby County. Trial courts, local law enforcement agencies.

Information Sources: *Monthly Summary of Wagering and Admission Tax*, Indiana Gaming Commission. Indiana Sheriffs Association, Department of Correction.

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